



October 2, 2008

Mary L. Cottrell, Secretary
Department of Public Utilities
One South Station, 2nd Floor
Boston, MA 02110

Re: Chapter 169 of the Acts of 2008 - Section 60
NSTAR Electric Company Purchase of Receivables Plan

Dear Ms. Cottrell:

I am writing on behalf of NSTAR Electric Company to present the Department of Public Utilities (the "Department") with NSTAR Electric's plan for compliance with the last paragraph of G.L. c. 164, § 1D, as amended by Section 60 ("Section 60") of Chapter 169 of the Acts of 2008 (the "Green Communities Act" or the "Act"). The Company is submitting its plan on this date pursuant to Section 103 of the Green Communities Act, which directs each electric distribution company to file a plan indicating its compliance with Section 60 within three months after the effective date of the Act.¹

The last paragraph of G.L. c. 164, § 1D, as amended by Section 60 of the Act, requires electric distribution companies to pay competitive suppliers that have chosen the complete billing method the full amounts due from customers for generation services "in a time period consistent with the average payment period of the participating class of customer, less a percentage of such amounts that reflects the average of the uncollectible bills for the participating classes...and other reasonable development, operating or carrying costs incurred, as approved by the [Department]." The Company interprets this provision as requiring it to purchase the receivables of competitive suppliers, *i.e.*, the money owed to competitive suppliers for generation services provided by the suppliers to their retail customers, that bill their customers pursuant to the complete billing option referenced in G.L. c. 164, § 1D, pursuant to a methodology consistent with the above-referenced statutory provisions.

- **Change in Supplier Payment Process**

Currently, the Company makes payments to suppliers serving customers who have chosen the complete billing method when their customers pay their bills. This process reflects the fact that the receivables associated with the complete billing method belong to the supplier, with NSTAR Electric simply collecting the money from customers and passing it on to the supplier. NSTAR Electric is not currently involved in the tracking or collection of accounts receivables associated with these types of customers. This point is significant because it means that the Company's accounting and customer billing systems are not currently configured to treat these amounts as the Company's own accounts receivable. Section 60 changes this process and effectively requires electric distribution companies to purchase the receivables of electric suppliers that serve customers who have chosen the complete billing method. In addition, there are a number of business-process matters that the Company must review and resolve prior to full implementation. Thus, although the transfer of the ownership of accounts receivables associated with customers served by a competitive supplier and electing the complete billing method may appear to be a straightforward matter, the mechanics involved for NSTAR Electric are fairly complex.

¹ The Act took effect on July 2, 2008.



- **NSTAR Electric Compliance Plan**

Given the complexity of tasks required for implementation, the Company's plan for compliance with the provisions of Section 60 involves a several steps that the Company has already commenced. Specifically, the Company's plan for compliance is as follows:

1. Overall Structure: The Company plans to purchase the receivables of competitive suppliers serving NSTAR Electric's residential and commercial and industrial ("C&I") retail customers. The actual sale of competitive generation to the Company's customers will remain the responsibility of participating competitive suppliers. The Company will pay for the receivables of a supplier for each class of customer served by the supplier "in a time period consistent with the average payment period of the participating class of customer." This time period will be reset on three-month intervals for suppliers serving large C&I customers and on six-month intervals for residential and small C&I customers, concurrent with the timetable for filing Basic Service rates for these classes.

The average payment period ("APP") for each customer class will be calculated based on the average monthly days' receivable for the relevant customer class for the prior year, adjusted for current payment trends. The Company's historical payment lag times reflect measurable variation on a monthly basis, which is attributable to seasonality. NSTAR Electric anticipates that the current payment trend would be calculated by taking the sum of the most recent three months of days receivable for which actual data is available and dividing this amount by the sum of the days receivable for the same three months in the prior year. This adjustment is to mitigate against potential sudden changes in receivables trends.

2. Purchase Price: The four components of the purchase price include the amount of billed sales reduced by: (a) average uncollectible bills ("Bad Debt") for the participating customer class, (b) reasonable information technology ("IT") and system development work, (c) other reasonable operating costs; and (d) financial risk costs.

(a) Bad Debt: The Bad Debt amount will be based on the most recent 12 month averages of the Bad Debt percentage for the participating customer class. The Bad Debt rate will be set when Basic Service rates go into effect and will be fixed for six months, for residential and small C&I customers, and three months for large C&I customers, respectively. For example, the Bad Debt rate for residential customers will be fixed for the period July through December at the actual average rate for the prior twelve months May through April. The Bad Debt rate for small C&I customers will be set in a similar manner. The Bad Debt rate for large C&I customers will be fixed for the period July through September at the actual average rate for the prior twelve months May through April and for the period October through December at the average rate for the prior twelve months August through July (i.e., the most recent twelve-month period for which actual data is available).

(b) System Costs: To implement Section 60 maintain the tools for proper credit collection, the Company will need to modify its payment, revenue, receivable, special ledger, and credit system processing to account for the additional information that needs to be included on supplier electronic business transactions, including billing, voucher, and payment transactions. Other system changes will be required for the calculation, storage, discounting, and timing of scheduled delivery of payments to suppliers, the creation of new receivable tracking and reporting mechanisms that include the proper handling of monetary adjustments resulting from bill cancellations and re-bills, new internal control mechanisms, adjustments to write-offs reporting to various agencies and bureaus, and the reprogramming of existing supplier vouchers. Therefore, the Company's purchase payments to suppliers will be adjusted for amounts associated with the Company's incremental system development costs relating to the development and operation of the purchase of receivables program.



(c) Operating Costs: Payments to suppliers will be adjusted to recover costs associated with the purchase of receivables program, including dispute resolution efforts to resolve issues that may arise between the Company and participating suppliers. The Company proposes an operating cost adjustment of 0.15 percent.

(d) Carrying Cost and Collection Risk: Payments to suppliers will be adjusted to recover carrying charges and the true-up of purchase of receivables bad debt. This adjustment will benefit suppliers by removing the necessity of incorporating a risk premium into the purchase price of receivables and by ensuring that the purchase price reflects actual bad debt experience so that suppliers are charged no more or no less than the cost actually generated by commodity-service customers.

3. Supplier Billing Contract and Terms and Conditions: NSTAR Electric will modify its existing Supplier Service Agreement to pertain to suppliers who are participating in the purchase of receivables program. The Company will also develop revised Terms and Conditions for Competitive Suppliers to reflect the provisions of the Company's program. In addition, these documents will require a participating supplier to maintain responsibility to verify customer sales tax status and pay state taxes on the supply portion of the bill. When the Company is prepared to become operational on the purchase of receivables program (and the Department has approved the plan), the Company will finalize the Supplier Billing Contract and Terms and Conditions and submit them to the Department.

4. Business Process Evaluation: As of September 1, 2008, the Company initiated a business process study to identify and implement the changes that would be needed to NSTAR Electric accounting and customer information systems to accomplish the purchase of receivables in accordance with the Act. Through this study, the Company will seek to identify the most cost-effective approach for implementing the system changes, while accomplishing compliance with the Act. In particular, the Company is sensitive to the need to minimize the administrative cost component of the purchase price so that suppliers and their customers are not unduly burdened. The outcome of the study will be to (1) confirm the details of the structure and operation of the purchase of receivables program outlined above; (2) identify necessary system modifications and the associated cost to be included in the administrative-cost component of the purchase price, and (3) the timeline for system modifications and program commencement.

5. Next Steps: When the Company has completed the business process evaluation, the Company will make a filing to the Department with the results of that process and a proposed timeline for implementation. As referenced above, the Company would anticipate that the filing would also include a Supplier Billing Agreement and proposed modifications to the Terms and Conditions for service.

6. Communications:

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Very truly yours,

A handwritten signature in dark ink, appearing to be "Kerry Britland", written over a horizontal line.

Kerry Britland



cc: Joan Foster Evans, Hearing Officer
Jed Nosal, Chief, Attorney General Division of Telecommunications and Energy
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